EMCORE Corporation
Second Quarter Fiscal 2006 Earnings Conference Call
May 4, 2006

Operator: Good morning ladies and gentlemen, my name is Nia (sp?) and I'll be your conference facilitator today. At this time, I would like to welcome everyone to the EMCORE Second Quarter Fiscal 2006 conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer period. If you would like to ask a question during this time, please press star then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key and as a reminder, this call is being recorded. Listeners can also log into www.emcore.com to access the web cast.

Thank you; it is my pleasure to turn the floor over to your host Victor Allgeier. Sir, you may begin your conference.

Victor Allgeier: Thank you and good morning everyone.

Yesterday after the close of markets EMCORE released it's fiscal 2006 second quarter and six months results. By now you should have received a copy of the press release. If you have not received the release, please call our office at 646-290-6400.

With us today from EMCORE are Reuben F. Richards, Jr., President and Chief Executive Officer, Tom Werthan, Vice President and Chief Financial Officer. Tom will review financial results and Reuben will discuss business highlights before we open the call up to questions.

Before we begin, we would like to remind you that some of the comments made during the conference call and some of the responses to your questions by management may contain forward-looking statements that are subject to risks and uncertainties as describe in EMCORE's earnings press release and filings with the SEC.

I will now turn the all over to Tom.

Tom Werthan: Thanks Vic, and good morning to everybody. Today we are reviewing our second fiscal quarter of 2006 and this is the three-month period ending March 31st of '06.

Revenues for the quarter came in at 41.2 million and this represents a 35% year-over-year increase as well as a 3% sequential increase. Revenues increased in all three of our operating segments year-over-year. Sequentially, fibre optics and electronic materials and devices did increase while Photovoltaic experienced a margin decrease of 4% and let me review revenues by the product lines.

Revenues for electronic materials were just over 5 million representing a 41% year-over-year increase and a 21% sequential increase. Driving the revenue growth is the one billion unit demand in projected cell phone demand. For the next quarter, we do expect revenues to increase approximately 10 to 12% in this division.

Photovoltaic revenues were 10.3 million representing a 31% year-over-year increase and a decrease of 4% sequentially. Despite the sequential decrease, we are still confident of the division growing by approximately 35% this year and next, not including terrestrial products that Reuben will discuss in his presentation.

Bookings remain strong in the March quarter boosting our confidence level on revenue projections. Next quarter we expect revenues to increase in this division by about 5 to 10%. One more comment about Photovoltaic's, we do expect to complete the shutdown of our City of Industry facilities in California with the relocation to our Albuquerque facility over the summer.

Fibre optic revenues were 25.9% million representing an increase of 36% year-over-year and 3% quarter-over-quarter. We expect revenues in this division to increase next quarter by approximately 5%. Combined with strong bookings, our revenue expectations for Q3 of fiscal 2006 are 42 to 44 million. Bookings were strong particularly in our satellite Photovoltaic's group. Backlog increased to about 49 million, which is an increase of 5 million sequentially and 9 million since the beginning of the fiscal year.

Turning to gross margins. Gross margins for the quarter ended March 31st, were 21% representing a four percentage point sequentially. Gross margins increase by 1.9 million to 8.7 million. All three divisions experienced gross margin increases: electronic and materials and devices gross margins increased by 6.3 percentage points to 16.2% driven by volumes; Photovoltaic's increased 7.1 percentage points to 14.2, and fibre optics increased 2.2 points to 24.8%.

Operating expenses for the quarter were 16 million, an increase of 4.3 million sequentially, and the increase was essentially attributable to two areas: the first was a 2.7 million one-time charge relating to loan forgiveness, the second involved approximately 1.3 million in operating expenses related to the three acquisitions completed during the past quarter.

Let me spend a moment on the acquisitions. To refresh everyone's memory, we purchased Phasebridge, Force and K2 Optronics all within 90 days and they are all part of our Ortel Division adding to the complexities normally experienced regarding the integration of one acquisition. The acquisitions provided 1.8 million in revenues for the quarter at a 24% growth margin. With the operating expenses of 1.3 million, the loss from the acquisitions totalled 1.1 million or about $0.02 per share. As we complete the integration of the three businesses, we expect revenues to increase along with positive contributions to earnings per share. The operating loss was 7.3 million and included the 2.7 million of loan forgiveness and 933,000 of stock compensation expense. Net of these items, the operating loss was 3.7 million or $0.07 per share and this compares to a loss of $0.08 per share in both the previous quarter and one year ago results.

Below the line, interests expenses was 1.1 million related to our convertible subordinated debt. We do have approximately 1.3 million maturing this month; that will leave us with about 95 million of convertible debt all due in May 2011 and all convertible at $8.06 per share. Our share of Velox's net loss was 150,000 and effective this quarter, we expect to change to the cost method of accounting for our investment in Velox, therefore, going forward, we will not record any of Velox's financial statements in our results.

GELcore, our joint venture with GE Lighting, posted a loss of just under $400,000 and this compares to a profit of about a half a million dollars in the prior quarter. This 900,000 swing contributed about $0.02 to our EPS loss.

GELcore revenues were approximately 17 million and gross margins were in line with this historicals. However, operating expenses increased due to new product introductions and staffing and marketing and the sales area. We do expect GELcore to return to profitability in the June quarter, however it will be below the level of last quarter's half a million dollars.

Also included below the line was the second and final earn-out payment from the sale of our equipment division to Veeco Instruments in November of 2003. We received a payment of $2 million during the quarter bringing the total earn-out payment to 15.3 million or about 76% of the potential full earn-out of 20 million. The net loss was 6.9 million after excluding stock-based compensation of over 900,000 and the loan forgiveness of 2.7 million and the earn-out received on the sale of the equipment division of 2 million, the loss was 5.3 million or $0.11 per share. Excluding GELcore's loss of 397, reduces the loss to $0.10 per share, the same as the prior quarter and the prior year after deducting similar expenses.

Let me turn to the balance sheet for a moment. Cash at the end of March was 33.9 million, a marginal decrease of $300,000 from December. Adjusted EBITDA, meaning the inclusion of non-cash and one-time items totalled about half a million dollars, representing an increase over the prior quarter of about 800,000 and the prior year of 300,000.

Let me summarize the quarter before turning the call over to Reuben.

From a revenue standpoint, we were within our guidance but quite frankly, we're disappointed we didn't exceed guidance. We had the bookings and the purchase orders but revenues were affected by lower that anticipated fibre to the home product shipments.

From a gross margin standpoint, we experienced increases in all three of our divisions and overall margins increased four percentage points to 21%, so we are on track to achieve our 26% target by year-end.

We completed three acquisitions and feel very strongly about the potentials of the three businesses we acquired. We did experience some integration issues leading to higher operating costs than anticipated, but these should be reduced as we complete the integrations.

Revenues will also increase from these businesses and we now have the most complete vertically integrated broadband product line in the industry.

From the backlog standpoint, bookings were strong particularly in our Photovoltaic's group; we also had bids out on substantial terrestrial Photovoltaic system level opportunities and have made initial shipments of solar cells to several companies. Backlog stands at about 49 million. Again, up 9 million since September and 5 million sequentially.

GELcore results were a disappointment but we believe that with the increased sales and marketing personnel and new product introductions, they can achieve their projected growth this year to approximately 100 million and be back to last quarter's profitability run rate by the September quarter.

And with that, let me turn the call over to Reuben for an operational and profit review.

Reuben Richards: Thank you Tom and good morning everybody. I am going to begin with a brief overview of the financial operational strategic aspects of the March quarter, then discuss some of the market trends that are continuing to drive revenue growth and improve profitability for both the current quarter and the rest of the year, allowing EMCORE to achieve its financial goals for 2006 of EPS positive in September.

For the March quarter, revenues increased 35% year-over-year 3.2% from the prior quarter. For the first half of '06, EMCORE revenues increased 41% over the prior year with all three reporting segments, RF, fibre and Photovoltaic showing significant revenue and profitability.

Operationally, as Tom pointed out, we did what we said we were going to do. Revenues were within guidance, gross margins were on target, but for the GELcore loss, we have hit our EPS targets.

We have raised our estimates for the June quarter to 42 to 44 million and are raising our revenue expectations above current street estimate to 46 to 48 for September, for reasons which I will I get into in the balance of the call.

Backlog for the quarter was driven by a greater than 2 to 1 book-to-bill at Photovoltaics.

Gross margins improved to 21% from 17 in the prior quarter, reflecting improved profitability at all three operating segments and we expect continued improvement in gross margins across all product lines for both the June and September quarters.

In terms of product line discussions, fibre optic revenue increased 36% year-over-year and between 3 and 4% from the prior quarter. Gross margins, more significantly, improved to 25% from 23% the prior quarter. Fibre optics represented 64% of the company's total revenue.

We continue to see gross margin improvement through reduction of material pricing in cost of goods through improving yields and prostheses. In the digital product line for 10 Gigabit Ethernet applications, these products in market demand remain extremely strong.

During the March quarter, we shipped the highest LX4 unit volume since the product was launched. Increased revenues in LX4 were driven by increased volumes at Cisco, as well as increased volumes to 3COM, Huawei, Extreme and Foundry as the first full quarter of shipments to non-Cisco customers. We expect sequential unit volume increases over both the June and September quarters with a substantial increase in September due to the launch of the X2 10 Gigabit Ethernet product line at Cisco.

Current estimates on X2 volumes beginning in the September quarter will run at 50% of there current LX4 volumes, ramping through the balance of calendar year ‘06 and ‘07. What that translates into is that we expect a 25% increase in 10 Gigabit revenues in September over the prior quarter, over the current quarter that we’re in now, due to the X2 launch.

For components and sub-assemblies for storage area networks, revenues were above planned for March and we continue to expect revenue growth this quarter driven by demand for both 4 Gig and 10 Gig.

In terms of new market opportunities, such as the optical mouse, we are finishing qualification with the leading OEM's in this market and expect production to begin in fiscal Q4, ending September.

On the analog or video side the business, that’s cable television and FTTx fibre to home, revenues were flat for the quarter with cable television decreasing due to product mix. Fewer high power laser transmitters were ordered during the quarter and that trend seems to be reversing this quarter.

Fibre to the home increased sequentially, but in fibre to the home where unit demand continues to increase quarter-over-quarter by 30%, we continue to see increasing purchase orders in this sector. We experienced production bottlenecks for the quarter, limiting capacity and resulting in EMCORE shipping about 50% of the purchase orders in hand. These bottlenecks have since been resolved; I have been myself to the contract manufacturer three times in the last four months and we expect to get current on these purchase orders by the end of the June quarter. Production delays in FTTx cost EMCORE about $1 million in revenues during the quarter.

As Tom pointed out, in the past four months EMOCRE has acquired three small companies whose product line allow EMCORE to offer the most complete video transmission product in the industry, encompassing cable television, fibre to the home, mobile video, military markets and these technologies enable video transport over four different networks: wireless, IP, hybrid fibre coax, Sonnet, and so on.

While the company incurred integration expenses of about a million and half during the quarter related to the consolidation of operations and integration of production of these products, we expect these costs to decline sequentially and we remain optimistic that these technologies will drive increasing revenue growth and profitability from this quarter on.

Our current revenue forecast to the acquisitions is 10 to 11 million over the next 12 months. In Photovoltaics, as Tom pointed out, revenues for the quarter were 10.2%, up 31% year-over-year, but down slightly from the prior quarter. Gross margins improved to 14% from 7 the prior quarter, doubling the gross margins, reflecting the transition from the initial phase of the $40 million Black contract to the production phase.

Margins, while doubling quarter-over-quarter, were negatively impacted by a substrate contamination issue which has been resolved and we expect significant margin improvement again this quarter. Our margin expectations for Photovoltaic’s is to be in the mid 20's this quarter, up from 14.

New bookings for the quarter were over 20 million, reflecting both new satellite system orders as well as the full release to production of the $40 million contract through 2007.

In terrestrial Photovoltaics; during the quarter, EMCORE received commercial orders for terrestrial Photovoltaics and shipped to five different solar cell consecrator companies including the largest two companies in this sector. We are finalizing commercial terms with these two companies as well as others, and it appears that revenues for terrestrial applications at a solar cell level will begin to ramp at the end of this quarter.

Perhaps more significantly at the module and system level, EMCORE has bids out on approximately 40 megawatts worth of installations. Included in that total are four projects ranging in scale from 1 megawatt to 19 megawatts. These contracts, these installations are fully funded; a couple are government-related, a couple are utility-related, and these contracts are expected to be awarded in 2006, probably starting next quarter for installation in 2007.

We have smaller projects that will be deployed in late 2006 but the majority of these revenues will be 2007. These projects are targeted deploying solar cell consecrator technologies both reflective and refractive platforms and establishes gallium arsenide as a viable, renewable energy platform at particularly attractive economics compared to rising silicon costs.

All of the projects are located in the south western part of the United States. Globally, the market outside of the US remains very strong, specifically China and India, and these represent substantially larger markets and we are negotiating strategic alliances in both of those countries.

In RF, revenues year-over-year increased 42% and 22% sequentially while margins improved from 10 to 16%. We are expecting further revenue growth and margin improvement this quarter driven by significant market acceleration around the combinational structures, or BiFETs as they are known, as well as increased demands for HPT.

During the quarter, we had more demands than capacity for the product lines for Freescale and Anadigics and in January, EMCORE increased its reactor capacity to meet this demand and expect the new reactor to contribute in revenues this quarter.

Bookings for the June quarter were in excess of 6 million.

We saw material cost reductions through improved process engineering with that 250,000 for the quarter, which ought to improve sequentially for June, and we expect AMD to be EBIT-positive this quarter.

GELcore, as Tom pointed out, incurred a loss during the quarter due to increase operating expenses as they added staff in product marketing and sales to support new product introductions during the year. We continue to expect revenues for 2006 to be exceeding 100 million and GELcore should return to profitability this quarter.

In closing, the outlook for continued and sustainable growth in revenues is very strong, consequently we’ve raised revenue estimates to 42 to 44 for the June quarter, and expect substantial revenue increase in September of 46 to 48 million. Revenues at all three operating segments are expected to increase.

We expect continued gross margin improvements driven by expanding revenues as well as material cost reductions. We are very excited about the market acceptance and demand for the company's terrestrial Photovoltaic products and systems and feel that the TPV market will accelerate the company's growth and profitability from 2007 and beyond.

And with that, I will turn it over to questions.

Operator: At his time I would like to remind everyone, if you would like to ask a question please press star then the number 1 on your telephone keypad. We will hold for just a moment to compile the Q&A roster.

Your first question is coming from John Lau, of Jefferies.

John Lau: Yes. Hi, Reuben; Tom.

Reuben Richards: Hi.

Tom Werthan: Morning.

John Lau: I have two questions, the first is, I wanted to feel more comfortable with regards to the manufacturing issues that had impacted the fibre to the home product. Was wondering if you can give us a little bit more clarity on the current status and how you are going to catching up with regards to those demands this quarter and I have a follow-up.

Reuben Richards: Sure. You know our capacity limitations in our contract manufacturer were driven sort of two-fold. The first being competition for resources. Their CM in Asia has a major customer in the Japanese fibre to the home market and we were competing with resources with that customer and I think we prevailed in terms of a significant increase in the resource allocation, and that appears to have untrapped a lot of the bottleneck issues from a production capacity standpoint.

And then the second issue was just a, probably a second order issue which was a yield at the optical sub-assembly test, again that was a bottleneck issue when we ordered more equipment and that has been since installed last quarter to free up unit volumes there. As I said on the call, I have spent, I took three trips to Asia over the last four months all of which were targeted at addressing the capacity limitations we had at the CM, and those we feel very confident have been resolved.

John Lau: Great and I wanted to the follow-up question, is that you are telling us a little bit more about the 40 megawatts of bits that you have on. I was wondering if you could give us a bit more color on as to the programs and how comfortable you feel with the funding for the programs itself. And then more importantly, your comfort level in participation in that, given you are on gallium arsenide and some commentary with regards to what's happening in the silicon area as it affects your bidding process for those products. Thank you.

Reuben Richards: Sure. As I think I said on the call all of these projects are located in the south west and part of the power generation side of the market requires that on the commercial side that utilities consume that 5% of the energy generated is a renewable source and that percentage increases to 10% over the next five years.

So clearly, renewable energy is a priority for utility production in that region, so two of the projects, one 8 megawatts and the other about 13 megawatts, are both utility-related are completely funded. The requirement on the utility use, the contract will be awarded, it is either going to be, most probably next quarter; early next quarter. But the requirement from a regulatory standpoint is that these this renewable energy capability that were are talking about, be installed in 2007. They have to have the energy come out of the installation and as part of their regulatory issues, it has to be up and operating in '07.

On the other two, those are both, I'll call them government-related projects, and are both fully funded, you know, through their respective organizations and those run - actually there are several but they run, you know there's one that's 18 megawatts; there's one that's as small as one megawatt, but there are several of them and they are going into military installations, I guess, is the best way to put it, in the south west. So, very high degree of confidence about the funding availability and the requirements and the incentive for these contracts to be let and installed on a timely basis.

John Lau: And Reuben, I just wanted to follow-up, press you a little more with regards to the current poly-silicon shortages and things like that. How do you believe the way your competitive bidding process and your positioning with regards to winning these contracts?

Reuben Richards: Yes. I think, you know first of all, these are all sort of significant power requirements, so I think their belief is that the gallium arsenide technology base is more scalable in that regard in consecrator technologies. I think in addition, that silicon pricing has made it a little more expensive. You know these were projects which are generally priced at the $3-a-watt level. You know, polycrystalline silicon prices, I don't follow it that much, but it moved from the 40, $50 range to the $120 range which was a significant increase in the cost per watt. So you know, this is one, because it generates substantially more electricity in this application and because other alternatives are getting more pricey, these are the approaches that in all of these cases have targeted concentrator solar cells.

John Lau: Great, that sounds good. Thank you very much

Operator: Thank you your next question is coming from John Harmon from Needham & Company;

John Harmon: Hi, good morning, a couple questions please. Can you hear me?

Reuben Richards: Yes.

Tom Werthan: Yes, John.

John Harmon: Okay great; it sounds like didn't reiterate your target of being EBIT-positive in the June quarter. Is that correct? Would you say you are still on track for the EPS- positive in September?

Tom Werthan: Yes, let me address that John. If you run down, let's run down the P&L and go through category-by-category. You know, from a revenue standpoint this should not be a problem. As Reuben mentioned, we're in the 46 to 48 million range.

Gross margins; we are very encouraged by the performance this quarter and we are on track to be at 26% at year-end, so when you do the math your gross margins at that revenue level will be over 12 million. The OFEX this quarter was 16 million but did include several unusual items. You know, the loan forgiveness is a one-time deal; stock option expensing is pro forma so we reduce that, and the acquisition operating expenses was about 1.3 million, and that should be cut substantially by September. So, with those projected OFEX down to about 11.7, you'll have operating income. Below the line, your interest will be about a million and GELcore, we believe, they will be on track for that plus or minus 100 million in revenue so that they should contribute more than the profit they contributed last quarter which was about a half a million dollars, making us slightly positive on net income.

John Harmon: Okay, thanks. GELcore; what is it that made them unprofitable and do you think they can have sustained profitability going forward?

Tom Werthan: We do. I think, you know, if you look at their revenues and their gross margins, they we inline historically with what they had been, so there was no unusual activity there. They really beefed up sales and marketing expenses both from a personnel standpoint and a new product introduction, just spending more on expenses in anticipation of increased revenues. They probably held out little bit too long but as we mentioned, they do expect to go from 72 million in revenues last year to the plus or minus 100 million this year and at those revenue levels, they can sustain profitability.

John Harmon: Okay, thank you. And on fibre to the home, if you do have a capacity constraint that limits your ability to ship, does that mean your other competitor grabs that kind of market share and do you get it back in the subsequent quarter when you are able to ship? How does that play out?

Tom Werthan: Sure. Yes, we have sort of the balance of the purchase orders that we did not ship for the March quarter which will go into this quarter and this on top of this production rate. So, it's going to be probably all we can do to get a quarter and a half worth of production out, so you are seeing a big step up in unit volumes and in revenue for this quarter. I would say in September, you will see us get a lot more aggressive with regard to market share John, and we feel we have got our cost structure in line to be to become, to drive more market share and unit volumes. So, it's not likely to happen in the June quarter but I think we will be very aggressive beyond that.

John Harmon: Thank you. And finally, could you give us a ballpark estimate, maybe dollars per megawatt or the best of all case scenario, if you want every single contract, what the what the revenue opportunity could be for terrestrial (inaudible)?

Reuben Richards: Yes, there are two revenue screens here; one is the module and system level which is the 40 megawatt applications. The other is we have, there are two major customer for solar cells, there are many more than that in total that we ship to in the past quarter, but my guess is that TPV revenues, when you look at timing issues and the fact that we're on a September year-end, you know, sort of the high end on revenues next year would be sort of 60 million. I think the low end is probably 30.

John Harmon: That would be cells and system added together?

Tom Werthan: Yes.

John Harmon: And then when you move out of City of Industry, California, that's got to give you a bit of a margin boost, right?

Tom Werthan: Yes. That is correct. You know, the cost of moving is about 3 million; the annual savings, is about 3 million, so the payback is about a year and then we will certainly get margin improvement.

Reuben Richards: So, we are expecting a $3 million a year cost savings, post closing.

John Harmon: Okay, great. Thank you very much.

Operator: Thank you. Your next question is coming from Jed Dorsheimer of Canaccord Adams.

Jed Dorsheimer: Hi, thanks. A lot of questions have been answered already but I was wondering if we maybe dig into the solar business a little bit deeper. Reuben, if you look at the 40 megawatts that you are currently bidding on, could you give us an idea of the landscape? It - sort of on the commercial as well as I guess, the military as far as how much is out there and I think that you the capacity of around 50 megawatts currently. Are there any plans to increase your capacity? And then I have a follow-up.

Reuben Richards: Yes. Jed, when you look at just what the projects we're currently engaged in and particularly in the south west and in one form or another and again that encompasses 40 megawatts; our capacity in this space is 50. You know, we also think that the markets of China and particularly India were we are fairly far progressed in developing an industrial relationship with a company there who is, this is their core competency, it's one of the major industrial companies there. That we, in fact, probably will add capacity some time later next year because we think China alone is a market equal to what we are currently looking at in the US and China is - excuse me - India is a market alone that would equal the US near-term and be much larger longer-term, and China as well, probably equivalent.

So you know, I think that the expectation is that some time in '07 we will add additional capacity. If you just did, you looked at and said $3-a-watt on 40 megawatts that is $120 million a year in business and given the fact that some of this will be pulled in, I think we've got at least 20 megawatts of the 40 that we bid on is likely to happen earlier rather than later, and the other 20 is probably going to on time, maybe slightly delayed. So, you are looking at, which is why I sort of cancelled the revenue expectations of, you know, 30 to 60.

For Terrestrial Plus, you know, the satellite side of the business has been booking new orders hand-over-fist. March was a very strong booking period; over $20 million in booking orders and that's on top of the orders we have been getting over the last six months. So you know we're seeing a big satellite increase and then on top of terrestrial Photovoltaics, so there is probably a requirement at Photovoltaics to increase capacity for the entire business.

Jed Dorsheimer: Got you, and on the terrestrial side, the chips are very small because you are using the concentrating technology so to basically double your capacity, what would that require from a cap ex perspective?

Reuben Richards: Hmmm. Let's see …

Tom Werthan: One system, Jed, hang on one second…

Reuben Richards: We have this data, hold on we got to dig it up. You know, each one of these concentrator companies has a slightly different footprint in terms of configuration as a cell and generically, we'll give you some data on it.

Tom Werthan: Generically, we would you know, when we order additional MOCVD reactors Jed, there is probably a six month delivery cycle and each reactor is capable of providing about 20 megawatts per reactor.

Jed Dorsheimer: All right. Great, that's very helpful. Reuben, on the 40 megawatts, in particular, that you currently have to bid; since two of them are commercial and two are military, is there any difference between the margin structure in both of those? In other words, some of, the Black contract I think, in the satellite had some upfront costs associated with it. Is the military side of those two contracts similar to that or is it similar to the commercial, and should we expect sort of the same margins across all of that 40 megawatt?

Reuben Richards: No, it's strictly commercial and you should expect normal product gross margins.

Jed Dorsheimer: All right, great, that's all for me right now. Thank you.

Reuben Richards: Yes.

Operator: Thank you. Your next question is coming from Ramesh Misra of CE Unterberg.

Ramesh Misra: That is close enough. Good morning, guys

Reuben Richards: Good morning.

Tom Werthan: Good morning, Ramesh.

Ramesh Misra: Hi. On the solar terrestrial side, are there any other gallium arsenide companies bidding for that?

Reuben Richards: On the terrestrial side, on the nearest term one, I think we are sort of hard wired on that one. Some of the ones that, I would say on two of them, there may be competing bids but they'd be getting cells from us so even if we lost them. So you know, we will have some revenue content across the board, I would guess.

Ramesh Misra: Okay, and then of course, the regular silicon guys are trying to get that as well.

Reuben Richards: Actually, I'm not, I do not think that the regular silicon guys are in this

Ramesh Misra: I see, okay. So I mean, this is something that you could be getting, well I guess, within a few months, will be getting really, really great visibility on.

Reuben Richards: Yes.

Ramesh Misra: Great, okay

Reuben Richards: We are as I said; we are very excited about this.

Ramesh Misra: Great, okay. Switching gears a little bit on to the 10 Gig side, Reuben, I think you said you're looking for about a 25% bump up in revenues on the LX4 side on the count of X2 alone?

Reuben Richards: Yes.

Ramesh Misra: Right?

Reuben Richards: Yes.

Ramesh Misra: Now, very roughly that looks like about 4 to 5 million or so dollars jump, so I'm just wondering if your September guidance of 46 to 48 million, I mean, is that assuming some of the other divisions may potentially come down a little bit?

Reuben Richards: I'm sorry, you broke up on the last part.

Ramesh Misra: So, you are looking at about a $5 million jump or so on 10 Gig in September, so with you current guidance of 46 to 48 in September, does that suggest that some of the other divisions may be soft or may be down a little bit?

Tom Werthan: Ramesh, what I think what Reuben referred to is the X2 adding to revenues and that is not anticipated to start until mid fourth quarter.

Reuben Richards: Yes, but it will still, so we are getting half a quarter of production and revenues are still going to increase 25% as a result of that.

Ramesh Misra: I see. So the run rate goes up 25% but on a full quarter basis it's not 25%. Okay. The X2 is that going to be manufactured at Fabrinet or is that going to be in Illinois?

Reuben Richards: Asia.

Ramesh Misra: Okay. In terms of the gross margin jump that you have seen on the fibre side, are you anticipating more cost efficiencies to be obtained on account of the Fabrinet transition or is that pretty much becoming towards a cap on that?

Reuben Richards: No, I think we see continued cost efficiencies there. You should expect quarter-over-quarter that our margins are to continue to improve.

Tom Werthan: Ramesh, just to further to add to that, I think you will see better improvement in margins from EMD and EPV. That being said you know, fibre optics is already the highest of the groups

Ramesh Misra: Right, okay. And on the acquisitions, I'm sorry; I think I missed some of the numbers that you gave out Tom. The revenue contribution from those acquisitions in March was how much and how much was the cost and where does that go next quarter?

Tom Werthan: Yes; revenues for the three acquisitions in the March quarter were1.8 million, the gross margins were 24%, operating expenses were 1.3 million, and that produced a loss of about 1.1 million

Ramesh Misra: Okay.

Tom Werthan: And that should be reduced this quarter. You know, revenues will go up, gross margins should go up somewhat, and operating expenses will come down slightly. So, we should be reducing that loss significantly.

Ramesh Misra: Okay. And then that ramp towards that 10 to 11 annual run rate I guess is that jump pretty much going to happen pretty much in the June quarter or is that going to be a little more gradual?

Tom Werthan: I think it's going to be a little more gradual.

Ramesh Misra: Okay, all right guys. That covers most of my questions. Thanks very much.

Operator: Thank you. Your next question is coming from Marcelo Desio of Triatto Capital.

Marcelo Desio: Hi, guys.

Reuben Richards: Good morning.

Marcelo Desio: Good morning. Just again, on the terrestrial solar opportunity; how do you kind of handicap what you are bidding on. How do you looking at, you know what your potential revenues out of that, out of the total bidding process is going to be how, you know, looking at that pipeline and handicapping it? And then secondly, between the satellite business and the terrestrial business, it sounds like you are going to have pretty shortly 100 million in revenues in just the solar business and it's a standalone operation. Have you talked internally and maybe externally about spinning that business out given that there are some other public companies that have similar revenue streams and maybe not as big as an opportunity as you and with a lot larger margin caps than your total company? What are your thoughts on that? Thanks.

Tom Werthan: Just on the confidence level you know, we near-term on probably 20 megawatts, we are as confident as you can get and we are still very confident on the balance. So, given timing issues I think we are being sort of fiscally responsible by saying 30 to 60 million next year.

Obviously, satellite's going to be up substantially year-over-year in '07 and yes, Photovoltaics will be on the order of $100 million in total revenues. We, from a management standpoint, if spinning it out is in the interest of all shareholders, when you take in all of the facts if fibre continues to scale, fibre optics continues to scale the way it is, and can successfully stand on its own and PV can stand on its own and you create more value for shareholders by doing that, then obviously that is the answer, but we'll make that decision when we get there.

Operator: Thank you. Your next question is coming from Jack Alfandary of KAIA.

Jack Alfandary: Hi guys, I wanted to get a better sense of what is from a specific perspective, your objective with the terrestrial business. Do you want to be mainly a modeling system level type of provider or focus mostly on providing the solar cells? And for each one of those opportunities, what is the total market opportunity and I guess level of margins for those separate businesses or separate approaches.

Reuben Richards: Sure, and you know recognizing that they are completely different business models, I think we are, where we feel our sweet spot is at the module level. At the systems level, it's likely we will partner on a project-by-project basis with some of the consecrator guys to do installation and electrical management and all of those issues.

So, you know I think just at a solar cell level, that is a different model that is more fab-oriented and fab economics are dictated by volume through fab, so you know clearly, there will be some volume of just solar cells and there are some customers who are only interested in buying solar cells from us, but we feel that in order to drive the market and in order to drive the technology, in order to make this a long term sustainable business model, it's the module level we intend to really capitalize on.

Jack Alfandary: Now, in terms of the, I guess the market opportunity for the modular full system perspective, what is the size that you foresee for the next full period?

Reuben Richards: Yes, you know I think at a module level, we are looking at sort of a $500 million a year market by 2010.

Jack Alfandary: And that is worldwide or just we are talking about the US.

Reuben Richards: Probably worldwide.

Tom Werthan: Jack, I will add that you could probably read five surveys and they vary greatly on how big the markets are.

Reuben Richards: Yes. The system levels by the way, the system level revenues on 500 million at a module level, is probably over a billion.

Jack Alfandary: Hm-hmm. In terms of I guess, the technology that you guys have internally and what you I guess need for the module level, are there any components that you need to add to the company so that you are vertically integrated or at this point, do you feel you have all the components?

Reuben Richards: No, I think sort of the key to all of this is to cell, then there are clearly in the module, there is some thermal management. There are some secondary optics and stuff like that, but those are all capabilities we have in-house. So no, don't think we need to do anything more there.

Jack Alfandary: Okay, thanks a lot.

Operator: Thank you. Your next question is coming from Jeff Osborne of CIBC World Markets.

Jeff Osborne: Hey, good morning guys. I just wanted to follow-up on the capacity additions for solar. How much do one of those reactors cost that could add 20 megawatts of capacity?

Reuben Richards: A million and a half bucks.

Jeff Osborne: Okay and did you comment what Cisco was as a percentage of revenue? I missed that if you did.

Reuben Richards: We did not. If they were over 10% it will be in our Q that we will file next week.

Jeff Osborne: Okay. Could you also just comment two things; on the LX4, has Cisco introduced line cards that are X2 compatible to date, or are those expected to come out closer to September? And then also, just provide what your view is on LX4 versus LRM looking forward. I think some RHK data had recently come out suggesting that the LX4 market would peak in '07. I was just curious; you know what your view on that was.

Reuben Richards: Let's see. Have they provided line cards? Yes, they had first customer shipment

Jeff Osborne: Okay.

Reuben Richards: About peaking in '07; you know again, not according to what we're seeing from a demand standpoint. You know clearly, LX4 is increasing nicely quarter-over-quarter. X2 is starting to ramp up. There is a third form factor after X2 which we expect to be a player in but it's a, the 10 Gigabit Ethernet market, and I would look at it more in terms of 10 Gig E growth is going to continue to be a sort of a 50% compound annual growth rate.

Tom Werthan: I think Jeff, from a cost standpoint for probably the next 24 months; LX4 will be a better economic purchase than LRM.

Reuben Richards: That doesn't mean that there won't be competing technologies for the 10 Gig E space, but I think you know, we've spent a lot of time getting ready for competition in the space and I think it would be, I think we have a strong position to fend our market share, fend, maintain or grow the market share.

Jeff Osborne: Great and what do you think the X2 margins are just relative to moving those abroad versus the MOX facility on the LX4 side are they comparable, higher?

Reuben Richards: No, I think they are will be comparable.

Jeff Osborne: Okay and then lastly, can you just provide and update on the GPON market, you know, how your positioned there with the transition expected to happen towards the end of the year, any trial shipments to date that (inaudible)?

Reuben Richards: Oh, yes. We have shipped in the short of hundreds to each customer. You know, that would be Motorola, Alcatel, Tellabs; geez, I'm sure there are other guys we have shipped to, but it's pretty much everybody in the industry.

Jeff Osborne: Okay. Back on the line card question; that's the last question I have for the preproduction shipments that you are sending, are those for the 6500 or those for more the wiring closet 3500, 4500 boxes from Cisco?

Reuben Richards: For X2 you're asking?

Jeff Osborne: Correct.

Reuben Richards: That is for the 4K and 3K.

Jeff Osborne: The 4K.

Reuben Richards: Yes, the X2 and LX4, the 6K are non-competitive. They're going into different line cards.

Jeff Osborne: Okay, that's what I thought; I just wanted to double check

Reuben Richards: Yes.

Jeff Osborne: Great, thank you.

Operator: Thank you. Once again, if you do have a question, please press star, then the number one on your telephone key pad at this time.

Your next question is coming from Michael Coady of B. Riley.

Michael Coady: Morning Reuben; hey Tom.

Reuben Richards: Hey, Mike.

Tom Werthan: Morning.

Michael Coady: Well, you've gone through everything pretty thoroughly. Is there any difference on the margins of the terrestrial versus the space-based solar cell given the end price sensitivity of the terrestrial market?

Reuben Richards: Yes, you know I think again, these are all our fab costs are largely a fixed cost. The material component is the same and we are expecting the same gross markets. There is no difference in yield.

Michael Coady: That's 35% year-over-year growth in Photovoltaics excluding, I mean, I can kind of back in the numbers given what you talked about but you said space-based is about a 35% grower and...

Reuben Richards: Yes.

Tom Werthan: Yup.

Michael Coady: Okay and then on the fibre optics side, you mentioned you expect margin improvements but at a slower rate than the other divisions. Given everything you know with additional costs you could take out and then volume increases, but also getting more aggressive on pricing to take market share in GPON coming out, where do you sort of see the fibre optics margin peaking?

Reuben Richards: Yes. I think over the next 12 to 15 months Michael, to get us through the end of '07 you know, we are at 25% this quarter, the target is to get about 32% as we exit '07.

Michael Coady: Could you talk about the other divisions in terms of the same kinds of dynamics?

Reuben Richards: Photovoltaics should increase quarter-over-quarter and that should happen for the next several quarters; really driven predominately by filling the fab capacity once our move is complete from City of Industry to Albuquerque. Everything will be under one roof and the volumes will go up dramatically increasing our contribution margins, you know, quite dramatically.

Operator: Thank you. We have a follow-up question coming from Jed Dorsheimer of Canaccord Adams.

Jed Dorsheimer: Hi, thanks. Forgot to ask and I'll be quick but just curious; Reuben, one of those two major customers I assume one to be a cell or someone who is looking to purchase cells from you. Do you expect to have a contract in place in this current quarter and then also, was that in that 60 to $30 million expectation for the terrestrial solar business? Thanks

Reuben Richards: You know, we are meeting with them next week so we are hopeful that we'll get it done this quarter, yes. And is that in the guidelines for next year? I would say, you know, just sort of risk-averse, there's probably some line item there for that, yes.

Jed Dorsheimer: Well, I guess maybe and I understand your rationale for being somewhat cautious or conservative here but if you're not really competing against many of the traditional silicon guys on some of those, on a good portion of that 40 megawatt type bids that are out there, and those are for sort of system level, what do you think that the cell sales could get to for it, or are you going to purposely limit what you will be selling in the cell, area due to capacity?

Reuben Richards: Well you know, first of all we're going to use the cells in what ever generates the highest ASPs for us and that's probably at a modular level. So, that answers that part of the question. The other thing is the volumes for the other guys, you know what, it could be on the low end it could be $1 million a month, on the high end it could be $2 million a month but again, so clearly, but the revenue opportunities and the way to drive the business we think is at a modular level. We will certainly support our customers and commit whatever capacity we need to ensure their success. So, if that means being more aggressive on ramping up capacity, then we will do that to grow the market.

Jed Dorsheimer: Great. Thanks for the clarity on all the questions.

Reuben Richards: Thanks.

Operator: Thank you. We have another follow-up question coming from John Lau from Jefferies.

John Lau: Yes, hi Reuben. I wanted to follow along that thought because you did say something very interesting that has a longer term market implication.

Gallium arsenide technology is being bid on these very, very large commercial applications, whereas the silicon is not as visible being visibly being quoted there. Can you tell us what are the dynamics, the technical dynamic that maybe is it because higher powered density in the cells are (inaudible)? What is it that's actually that you're porting over from your satellite cells down to these commercial cells that makes it a differentiating factor for these high powered applications? Thank you.

Reuben Richards: Well, it is always cost per watt John, that's one. The second is what's the total power output? And the third is, is it scalable? And probably in these applications, in commercial and industrial, look silicon is very capable and so on but because of the poly-crystalline shortages right now, the installed cost is, looks higher. The gallium arsenide generates sort of 3X to the total power per square centimeter and it's scalable from a product technology standpoint. You know, maybe silicon is but it's you know very clearly, EMCORE has a path to scaling its technology from 36% today to 38 next year to 40 and then, as you know and we've announced, we have DARPA funding to get to 50% efficiencies. So you know, clearly the government is subscribing that this is a product approach that is scalable to drive economics and ultimately, and you will probably see us announce a couple of partnerships with regard to doing this, is that ultimately our target to buck, to a little over a buck, buck fifty a watt and we think we can get there through improved efficiencies on gallium arsenide sales and some development on the concentrator side. So you know, again to have a long term sustainable business model you've got to be able to hit the cost per function over time that where it becomes, without subsidies, an economic proposal and we think gallium arsenide can do that.

John Lau: Okay, so in terms of the energy efficiency you mentioned 36%, you still have a long runway towards the goals of even higher energy efficiency through the gallium arsenide material that you do have then.

Reuben Richards: Absolutely.

John Lau: Okay. Thank you.

Operator: Thank you. And as your final follow-up question, it's coming from Jack Alfandary of KAIA.

Jack Alfandary: Hi Reuben. I had a question about the GPON market. You mentioned that you intend to get more aggressive with this market around the September quarter and I'm wondering to what extent is that related to the fact of the rollout or the acceptance of the GPON and your position in that market.

Reuben Richards: Yes, you know, I think we feel the GPON is a more complex product; it's a really sort of I guess, it is right in our wheelhouse from, if you look at all of our fibre optic products there are highly engineered, the Telex, all the 10 Gigabit Ethernet stuff and the PON transceivers. This is something that we feel that we feel that we have a path, a cost base and a path to get very aggressive on, from a pricing standpoint. So I think you'll see us get more aggressive on VPON but very aggressive on GPON.

Jack Alfandary: And your cost advantage is that related to some of the acquisitions you made last year?

Reuben Richards: Yes, on some of the acquisitions and the fact that we produce our own optics which is, you know, a big component of cost of goods.

Jack Alfandary: I see, thanks a lot guys.

Operator: Thank you. And now I would like to turn the floor back over to Reuben Richards for any closing remarks.

Reuben Richards: Thank you everybody for your time on the call. You know as I said in closing, for the March quarter, we think operationally we did what we said we would do. Clearly, we were a little light on the revenue side but we think we can make that up this quarter; pretty sure we'll make that up this quarter.

Guidance of 42 to 44 and raising those three estimates for the September quarter to 46 to 48, I think I underlying a confidence level we have in our fibre optic and Photovoltaic businesses as well as the RF to continue to drive revenue growth and profitability for the company.

We are well positioned and are very excited about the market acceptance and demand for the company's terrestrial products and I feel that that is a long term market for us and will drive growth from '07 and beyond.

So again, we look forward to continued revenue growth and increased profitability as we move quarter-over-quarter and tapping these new markets with our product technologies. Thank you very much.

Operator: Thank you; this concludes today's EMCORE's Second Quarter Fiscal 2006 conference call. You may now disconnect.